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SUBJECT: DEPOSIT INSURANCE FUND SEIZES CONTROL OF UZAN  
COMPAN

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Sensitive but Unclassified - not for internet distribution.

[¶](#)1. (U) This is a joint Embassy Ankara-Congen Istanbul cable.

[¶](#)2. (SBU) Summary: Turkey's Savings Deposit Insurance Fund (SDIF) moved on Saturday, February 14 to seize control of 219 companies owned by the controversial Uzan family in the latest episode of the protracted conflict between the family and Turkish authorities. The family owes the state almost 7.5 quadrillion TL (5.7 billion USD) as a result of the fraud surrounding its failed Imar Bank, and the SDIF described the move as an effort to recover that debt. Youth Party leader Cem Uzan, to date not charged in the burgeoning scandals, linked the action to upcoming local elections and accused the government of pursuing the family for political reasons, a charge swiftly dismissed by government spokesperson Cemil Cicek. Given the breadth of the now-crumbled Uzan empire, the SDIF action will have major reverberations, in Turkish politics, banking, telecoms, and media, as well as on efforts by Motorola and Nokia to recover the large debts owed them by Telsim, the Uzan-owned GSM operator. In addition to cracking down on the Uzans, both the GOT and the technically-independent SDIF are using the Uzan example to try to pressure other owners of failed banks to come to the negotiating table. End Summary.

DEPOSIT GUARANTEE FUND SEIZES UZAN GROUP COMPANIES:

[¶](#)3. (SBU) Management not Ownership: In a written statement issued on February 14, the SDIF noted that it was acting under the authority of last December's amendment to Turkey's Banking Law, pursuant to which controlling shareholders and their family members are responsible for repaying all the debts of an insolvent bank. The amendment was a condition of the IMF's Sixth Review and ran into significant opposition from bankers over the broad powers granted SDIF to seize assets from the owners of failed banks. As a result of the failure of Imar bank and the fraud surrounding it (refs), the SDIF was forced to make provision for nearly 6 billion USD in payments to depositors (a process that is now ongoing). The SDIF noted that it had given Uzan Group officials repeated opportunities to present a payment plan for the Group's outstanding debts to SDIF, but that they had failed to do so.

[¶](#)4. (SBU) As a result, the SDIF moved to take control of the companies and install temporary trustees to administer them. The Fund made clear that it is taking over "management" rather than "ownership," possibly in an attempt to avoid assuming the group's debts. SDIF V.P. Binnur Berberoglu and BRSA V.P. Ercan Turkan explained to Econoff that, under the amended banking law, the SDIF cannot seize shares of companies in the first stage. According to Berberoglu, the law allows SDIF to assume control, and have all rights of ownership except the right to receive dividends. At a subsequent stage, once the companies have been fully evaluated, the SDIF has the right to seize shares, and sell or liquidate the companies.

[¶](#)5. (SBU) Cem Uzan in recent public comments has for the first time conceded that Telsim, the Group's GSM-operator,

owed Motorola and Nokia 3.5 billion USD, but had argued that in the event of a takeover the SDIF became responsible for this amount. Media reports cite a number of legal experts, however, as suggesting that while the company is now under state control, it retains its legal identity and retains responsibility for its obligations.

16. (SBU) A Paper Empire? On paper, the Uzan empire is vast, encompassing 219 companies and up to 40,000 employees. Initial reports, however, indicate that of this total only 124 companies were actually doing business, and that the remaining 95 exist only on paper and will soon be liquidated. Fund officials have declined to comment publicly on these reports, stressing only that the SDIF will decide what to do with individual companies after reviewing their 2003 financial statements. Currently, new company trustees are poring over company books in an attempt to determine each company's actual operations and assets.

17. (SBU) The SDIF's Berberoglu confirmed to econoff that one of SDIF's motivations was to ensure that the companies, Uzan-appointed managers were not continuing to take money out of the companies for the Uzans, use. Wednesday's papers reported that Telsim, like Imar Bank, had double sets of books. According to the press reports, Telsim's managers used the double-accounting to underreport Value-added and Special Communications taxes collected from customers and keep the tax collections for themselves.

18. (SBU) Political Countercharges: Cem Uzan, the only leading family member not in hiding, reacted to the latest move with typical bravura, reiterating his favorite charge that the government was persecuting his family out of fear of the political threat posed by his "Genc" or Youth Party. Swiftly asserting that the charge was false, Government Ministers, including Finance Minister Kemal Unakitan, said the action was undertaken by the SDIF in full accordance with Turkish law.

#### BANKING, TELECOM, MEDIA, AND POLITICAL REVERBERATIONS:

19. (SBU) Pressure on other owners of failed banks: Though the costly Imar Bank failure provided ample reasons for the SDIF to move against the Uzans, the move also put pressure on other owners of failed banks who have yet to negotiate payment plans with SDIF. According to a Milliyet article, there are nine bank owners who have yet to work out a payment plan, even though their banks were taken over two or three years ago. On Tuesday, Prime Minister Erdogan explicitly referred to the other bank owners, saying the SDIF is inviting them to the negotiating table

10. (SBU) Telecom: Government officials have told us privately for weeks that they intended to take over Telsim (probably the most profitable company in the Uzan Group), and to re-sell it quickly. At this early stage, it is not clear what impact the takeover will have on Motorola's attempts to recover its debts from Telsim. SDIF officials indicated that their priority is to recover debts owed to the Turkish state, but refrained from making clear statements about debts to third parties. Some independent legal analysts have noted that such third-party liabilities would only be repaid after the group met its extensive liabilities to the state. When Prime Minister Erdogan was asked about the debts to Motorola and Nokia, he said the State was not "the interlocutor" on the issue.

11. (SBU) &Star8 Journalists Claim Press Censorship: The &Star8 media group, which includes &Star8 newspaper (circ. 250,000) and a handful of popular television channels, played an important role in the Uzans' political aspirations. It served as a mouthpiece of Cem Uzan's Genc Party and a platform through which Uzan could criticize the AKP government with impunity and without concern for balanced coverage. The takeover of &Star8 management has had an immediate, visible impact in the media formerly controlled by the Uzans. Monday's &Star8 newspaper, for example, featured a lengthy justification from the Savings Insurance Fund about the reasons for the takeover. The article portrayed the action as an effort to recover looted funds owed to Turkish depositors. Pro-Uzan political columnists have been notably absent from the pages of &Star8 since the weekend. The newspaper continues to publish, but the pro-Uzan slant and the relentless criticism of the AKP has stopped.

12. (SBU) The changes at &Star8 have provoked outrage among some employees of the &Star8 media group. For weeks,

employees of &Star8 television channel have used their nightly newscast to rant against the government for &blocking8 their salaries. In today,s &Cumhuriyet8 (the opposition newspaper most reflective of Kemalist establishment views), &Star8 media president Can Atakli accused the government of &religious, fascist, dictatorial pressure8 against the media. &Star8 columnist Hayrullah Mahmud said that the government &doesn,t want to see things it doesn,t like in the papers or on the TV screen.8 Pro-Uzan forces at &Star8 received support yesterday from the Turkish Journalists, Council. Oktay Eksi, the Council,s President (a staunch opponent of the AKP Government), said that the &discrimination8 against &Star8 media was - just an effort to silence the opposition media, but to turn that media into a mouthpiece for the government.8

¶13. (SBU) Comment: Leaving aside the legal issue of government interference in media content, the characterization of &Star8 as &opposition media8 is both incomplete and disingenuous. &Star8 media under the Uzans was, by any standard, completely irresponsible and without moral scruple. &Star8 newspaper routinely fabricated &news8 to discredit its targets, which included the government, the United States, and this embassy, while attempting to build a personality cult for Cem Uzan to further Genc Party interests. Although there may be a legitimate debate here about freedom of the press, we shouldn,t pretend that &Star8 had any redeeming value as a media outlet. End Comment.

¶14. (SBU) Political Dimension: Our contacts in and close to AK Party have consistently told us that, while Erdogan and AK have made a big deal about using the example of action against the Uzans to demonstrate resolve in combatting corruption, Erdogan has been out to get the Uzans more for personal and political reasons. Our Law Enforcement exchanges underline this point, as they highlight the paucity of effort at building a case to prove the seemingly-evident Uzan embezzlement from Imar Bank. Erdogan has never forgotten Cem Uzan's public insult -- denigrating Erdogan's piety -- at a rally in Bursa in mid-2003. Moreover, as one contact with immediate access to Erdogan has just confided to us based on recent conversations with Erdogan and his inner circle, Erdogan has set an ambitious nation-wide target for AK in March 28 local elections and wanted to use this opportunity to rid himself of Cem Uzan's Genc Party, which Erdogan feared would be the principal rival in key urban-sprawl areas. By this action, and Cem Uzan's tearful (i.e., unmanly) reaction on television, Erdogan has slashed a political rival. However, Erdogan has not yet addressed the deep alienation in urban-sprawl areas which Uzan had fed off to launch Genc and which will provide the political Petrie dish for the next populist-nationalist political movement.

¶15. (SBU) Comment: Saturday's takeover represents another nail in the coffin of the Uzan business empire, and it is increasingly difficult to see how the family will ever recover. Given his infamous clan's unsavory track record, it is doubtful that Cem Uzan's attempt to turn the issue to his political advantage will succeed.

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